

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

PUBLIC SERVICES COMMISSION

In Re The Virgin Islands Water and Power
Authority's Levelized Fuel Adjustment
Charge

Order No. 5/2012

PSC Docket No. 289

ORDER

WHEREAS, this matter is before the Virgin Islands Public Services Commission ("Commission" or "PSC") on remand from the Superior Court of the Virgin Islands concerning the inclusion of interest on the Water and Power Authority's ("Authority" or "WAPA") \$40,000,000 General Obligation Note ("Note") and two lines of credit, totaling \$6,000,000 financed through the Levelized Energy Adjustment Charge; and

WHEREAS, the Commission has previously reviewed the \$40M General Obligation Note twice, first in 2008 and again in 2010; and

WHEREAS, at meetings in November and December 2010 the Commission received testimony on the refinancing of the Note; and

WHEREAS, the Commission has reviewed the Authority's October 27, 2010 petition and the testimony of the Authority's then Chief Financial Officer, Nellon Bowry, in support of the petition for refinancing of the Note; and

WHEREAS, the Commission received the report and testimony of its technical consultants which supported the refinancing; and

WHEREAS, the Commission has previously encouraged the Authority to begin a hedging program, as early as 2004; and

WHEREAS, the Commission first approved the Hedging Program in November 2006; and

WHEREAS, that Hedging Program contained a requirement for the establishment of lines of credit; and

WHEREAS, the Hedging Program has been inactive due to changes in the markets, both for oil and for financial options;

NOW, THEREFORE, THE COMMISSION FINDS:

- i. That as of November 2011, the Authority was then under-recovered in its fuel costs in a total amount in excess of \$40M; and
- ii. That it would be unreasonable to impose these costs within the short term on ratepayers; and
- iii. That in the absence of a funding mechanism to restore the Authority's liquidity, its ability to continue to purchase fuel would be substantially impaired; and
- iv. That it is reasonable and prudent to improve the Authority's cash position; and
- v. That in the absence of an improved cash position, the Authority's continued reliability and even viability may be impaired; and
- vi. That the ratepayers will be benefitted by the lower immediate rates in an amount justifying the amortization of these costs over a longer period and reducing the monthly costs; and
- vii. That in the final months of activity of the Hedging Program the lines were drawn down as oil prices fell below the floor of the then-in place hedges; and

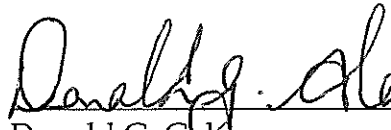
- viii. That the Authority's Hedging Program has been inactive; and
- ix. That the Authority has now paid off one of these two lines of credit; and
- x. That the Authority now has in place a plan to pay off the remaining line of credit;

NOW, THEREFORE, IT IS HEREBY ORDERED, in the interest of lowering the LEAC rate and, thereby, the customer's monthly bills:

1) For the purposes of setting the LEAC rate, the debt service (principal and interest) required for the \$40M General Obligation Note will be included in the LEAC.

2) For the purposes of setting the LEAC rate, the interest on the lines of credit will be included in the LEAC through the first quarter of 2012.

Date: 27 January, 2012


Donald G. Cole
Chairman